

Message Text

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ACTION NEA-16

INFO OCT-01 EUR-25 ISO-00 IGA-02 PA-04 PRS-01 USIA-15

FEA-02 AEC-11 AID-20 CEA-02 CIAE-00 CIEP-03 COME-00

DODE-00 EB-11 FPC-01 H-03 INR-11 INT-08 L-03 NSAE-00

NSC-07 OMB-01 PM-07 RSC-01 SAM-01 SCI-06 SP-03 SS-20

STR-08 TRSE-00 FRB-03 DRC-01 /197 W

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FM USINT ALGIERS

TO SECSTATE WASHDC 1151

INFO AMEMBASSY JIDDA

AMEMBASSY LONDON

AMEMBASSY PARIS

C O N F I D E N T I A L ALGIERS 2080

E.O. 11652: N/A

TAGS: ENRG, AG

SUBJ: ALGERIAN CRUDE OIL PRODUCTION AND PRICES.

1. ALGERIAN OIL PRICES ARE UNDER SQUEEZE. ALGERIANS ARE ATTEMPTING TO NEGOTIATE NEW CONTRACTS IN NEW YORK WITH FRANCE. ALGERIANS SHOULD BE SETTING FOURTH QUARTER PRICES, BUT WITH WORLD GLUT OF OIL AND ALGERIAN HIGH, \$13 A BARREL PRICE, THEY HAVE NOT BEEN ABLE TO SELL ALL THEIR OIL AND HAVE BEEN FORCED TO CUT PRODUCTION. HASSI MESSAOUD ANNUAL PRODUCTION OF 26.3 MILLION TONS IS CUT TEN PERCENT AS IS TIN FOUYE'S ANNUAL PRODUCTION OF ALMOST FOUR MILLION TONS. THIS MEANS OVERALL ALGERIAN CRUDE PRODUCTION IS DOWN ON AN ANNUAL BASIS ABOUT 3 MILLION TONS OR SIX PERCENT OF TOTAL ALGERIAN PRODUCTION.

2. USINT UNDERSTANDS SLIMANE BOUGUERRA OF SONATRACH INDICATED AT DETROIT WORLD ENERGY CONFERENCE
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ALGERIAN CONCERN AND DESIRE TO SHIFT BACK TO LONG

TERM SUPPLY CONTRACTS WITH INFLATION INDEX, AND NEW FORCE MAJOR CLAUSES. FRENCH COMPANIES WHICH HAVE OWN OIL IN ALGERIA, AND ONLY PAY COSTS ARE ALSO NEGOTIATING WITH SONATRACH. FRENCH ALSO ARE REDUCING THEIR LIFTINGS OF ALGERIAN CRUDE DUE TO HIGH COST ALGERIAN OIL.

3. ALGERIA IS NOW APPLYING 16.67 PERCENT ROYALTY TAX, BUT COMPANY TAX IS NOT YET SET. INCREASE IN COMPANY TAX SHOULD BE VERY SMALL IF OVERALL COST INCREASE IS TO BE KEPT TO OPEC'S 3 PERCENT, BUT ALGERIAN MINISTER OF INDUSTRY AND ENERGY ABDESELAM ON SEPTEMBER 14 SAID ALGERIA WOULD FOLLOW GULF STATES. GULF STATES' TAX LEVEL WOULD MEAN AN INCREASE IN COMPANY TAX FROM 55 PERCENT TO 61 PERCENT. SUCH A COMPANY TAX PLUS NEW ROYALTY RATE WOULD LEAD TO ABOUT SEVENTEEN PERCENT COST INCREASE FOR ALGERIAN CRUDE. FRENCH COMPANIES ARE RESISTING ANY INCREASE IN COSTS AND WATCHING RESULTS OF NEW YORK NEGOTIATION WITH U.S. OIL COMPANIES.

4. USINT WOULD APPRECIATE TEXT OF BOUGERRA'S STATEMENT AT WORLD ENERGY CONFERENCE AND WORD ON LINE U.S. COMPANIES TAKING. ALGERIANS ARE ADEPT AT PLAYING U.S. AND FRENCH OFF AGAINST EACH OTHER.PARKER

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